

Can a Tax-Exempt Organization Have Business Income?

IRS Nationwide

2007

**Tax
FORUM**

Partners in Tax
Administration

Unrelated Business Income

- Trade or Business
 - Carried on for production of income
- Regularly Carried On
 - Exhibits frequency & continuity
- Not substantially related to exempt purpose
 - Does not contribute importantly to or exploits an exempt purpose

Common Unrelated Business Activities

- Advertising
- Gaming
- Sale of merchandise and publications
- Services, such as parking

Exceptions to UBI

- Volunteer labor
- Convenience
- Donated Goods
- Qualified trade show income
- Hospital Services
- Low Cost Items
- Mailing Lists

Exceptions to UBI (continued)

- Qualified Sponsorship
 - Acknowledgement
 - No qualitative or comparative information, inducements to buy
- Traditional Bingo
 - Legal where played
 - No direct competition
 - No scratch offs or instant bingo

Modifications

- Passive Income
 - Dividends & Interest
 - Royalties
 - Capital gains or losses
- Research Income
 - Government sources
 - Universities & Hospitals –All sources
- Rents from Real Property

Debt-Financed Income

- Acquisition Indebtedness
 - Debt incurred to acquire or improve property
 - Not incurred but for acquisition
 - Reasonably foreseeable
- Taxable income
 - Ratio of average acquisition indebtedness to average annual adjusted basis

Debt-financed Property Exceptions

- Property used in:
 - Unrelated trade or business
 - Research activities
 - Substantially related activity
- Exception Applies
 - Volunteer labor, Convenience, Donated goods
- Neighborhood Land Rule

Controlled Organizations

- Parent owns more than 50% by vote or value
- Subjects dividend, rental, royalty, and annuity income to tax
- New PPA Requirement
 - Suspended if Existing Contract Applies/Appropriately Valued

Expenses & Deductions

- Directly Connected Expenses
- Reasonable Allocation Method
- Special Allocation Methods:
Advertising & Exploitation
- Deductions
 - Net Operating Loss
 - Charitable
 - \$1000 Specific Deduction

Filing and Disclosure Requirements

- 990-T: If UBI is \$1000 or more
- 990-W: if tax is to be \$500 or more
- PPA: 501(c)(3) organizations must disclose 990-T effective 8/17/06

More Information

- IRS Charities & Nonprofits Website

www.irs.gov/eo

- TE/GE Customer Account Services
(877) 829-5500 (toll-free)

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